

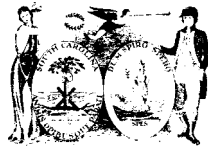
**SOUTH CAROLINA STATE ACCIDENT FUND**

**COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2001**

# State of South Carolina



## Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

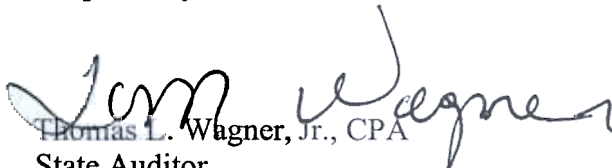
November 20, 2001

The Honorable Jim Hodges, Governor  
and  
Mr. Irvin D. Parker, Director  
South Carolina State Accident Fund  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina State Accident Fund for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

**SOUTH CAROLINA STATE ACCIDENT FUND**

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YEAR ENDED JUNE 30, 2001**

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the accompanying balance sheet of the South Carolina State Accident Fund (the Fund) as of June 30, 2001 and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position, results of operations and cash flows of the portion of the funds of the State of South Carolina that is attributable to the transactions of the Fund. They are not intended to present fairly the financial position and results of operations of the State of South Carolina and/or its other agencies, institutions, departments or funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina State Accident Fund as of June 30, 2001 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17, management discovered an error in the application of an accounting principle related to the valuation of receivables as of June 30, 2000. The correction has been accounted for as a prior period adjustment.

*Rogers & Laban, PA*

October 8, 2001



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# **SOUTH CAROLINA ACCIDENT FUND**

## **BALANCE SHEET**

**JUNE 30, 2001**

### **ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 25,413,412
Premiums receivable	35,368,823
Claims recoveries and reimbursement receivables	443,156
Recoverable under reinsurance annuity contract	285,974
Accrued interest receivable	292,923
Total current assets	<u>61,804,288</u>

**Property and Equipment:**

Computer and technical equipment	9,476,284
Office furniture and equipment	341,909
Total	<u>9,818,193</u>
Less, accumulated depreciation	3,856,995
Net property and equipment	<u>5,961,198</u>

**Other Assets:**

Investment in reinsurance annuity contract	1,282,294
Less, accumulated amortization	188,395
Other assets net of accumulated amortization	<u>1,093,899</u>

Total assets	<u><u>\$ 68,859,385</u></u>
--------------	-----------------------------

### **LIABILITIES AND FUND EQUITY**

**Current Liabilities:**

Cash overdraft	\$ 802,776
Accounts payable	241,857
Accrued compensated absences and related benefits	335,181
Accrued payroll and related liabilities	305,644
Accrued premium refunds payable	5,295,486
Deferred premium revenue	35,417,724
Unpaid claims liability and claims adjustment expenses payable within one year - net	24,411,000
Less, amounts recoverable from the State of South Carolina	(83,367)
Total current liabilities	<u>66,726,301</u>

**Noncurrent Liabilities:**

Unpaid claims liability and claims adjustment expenses payable beyond one year - net	32,741,000
Less, amounts recoverable from the State of South Carolina	(749,999)
Total noncurrent liabilities	<u>31,991,001</u>

Total liabilities	98,717,302
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**Fund Equity:**

Retained earnings (deficit)	<u>(29,857,917)</u>
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Total liabilities and fund equity	<u><u>\$ 68,859,385</u></u>
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**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA ACCIDENT FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
YEAR ENDED JUNE 30, 2001**

**OPERATING REVENUES**

Premiums	\$ 35,258,685
Interest/investment income	2,435,300
Total operating revenues	<u>37,693,985</u>

**OPERATING EXPENSES**

Claims expense	34,201,926
Administrative expenses:	
Second Injury Fund assessment	6,030,699
Personal services and employee benefits	3,881,128
Contractual services	957,813
Rent and insurance	319,945
Supplies and materials	116,467
Depreciation	1,103,052
Reinsurance premiums	1,129,214
Other expenses	84,930
Actuarial fee	30,000
Bad debts	5,436
Total administrative expenses	<u>13,658,684</u>
Total operating expenses	<u>47,860,610</u>

**OPERATING INCOME (LOSS)** (10,166,625)

**NONOPERATING REVENUES (EXPENSES)**

Amortization expense - reinsurance annuity contract premium	<u>(75,358)</u>
-------------------------------------------------------------	-----------------

**NET INCOME (LOSS)** (10,241,983)

**RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR -AS PREVIOUSLY REPORTED** (19,265,934)

**PRIOR PERIOD ADJUSTMENT** (350,000)

**RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR - AS RESTATED** (19,615,934)

**RETAINED EARNINGS (DEFICIT) AT END OF YEAR** \$ (29,857,917)

See accompanying Notes to Financial Statements.

# SOUTH CAROLINA ACCIDENT FUND

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2001

### CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income (loss)	\$ (10,166,625)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Bad debts	5,436
Depreciation expense	1,103,051
Reclassification of interest/investment income to investing activities	(2,435,300)
Changes in assets and liabilities:	
(Increase) decrease in premiums receivable	(30,199,306)
(Increase) decrease in claims recoveries and reimbursement receivable	691,404
(Increase) decrease in recoverable under reinsurance annuity contract	(34,612)
Increase (decrease) in accounts payable	17,534
Increase (decrease) in accrued compensated absences and related benefits	(28,135)
Increase (decrease) in accrued payroll and related benefits	(515)
Increase (decrease) in accrued refundable premiums	1,451,872
Increase (decrease) in deferred premium revenue	31,280,647
Increase (decrease) in estimate of unpaid claims liability, net of amounts recoverable from the State of South Carolina	944,634
Total adjustments	<u>2,796,710</u>
Net cash (used) by operating activities	<u>(7,369,915)</u>

### CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:

Repay cash overdraft	(1,104,325)
Loans from cash overdraft	802,776
Net cash provided from non-capital and related financing activities:	<u>(301,549)</u>

### CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of property and equipment	(110,958)
Net cash used by capital and related financing activities	<u>(110,958)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES:

Interest/investment income received	2,559,979
Net cash provided by investing activities	<u>2,559,979</u>
Net (decrease) in cash and cash equivalents	(5,222,443)

Cash and cash equivalents at beginning of year	30,635,855
Cash and cash equivalents at end of year	<u><u>\$ 25,413,412</u></u>

### Supplemental Disclosure:

#### Noncash capital and related financing activities:

The cost of equipment disposed of was \$357,855 and accumulated depreciation on this equipment was \$357,855.

**See accompanying Notes to Financial Statements.**

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of South Carolina State Accident Fund (the Fund) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below.

#### **Reporting Entity**

The South Carolina State Accident Fund, a primary entity, is part of the primary government of the State of South Carolina and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The Fund was established by Section 42-7-10 of the Code of Laws of South Carolina, as amended, to provide worker's compensation insurance coverage to State entities. Although the State of South Carolina is the Fund's predominant participant, counties, municipalities, and other political subdivisions of the State may elect to participate. The State assumes the full risk for the covered claims. The Fund is responsible for investigating, adjusting and paying worker's compensation claims as awarded by the Worker's Compensation Commission for job related accidental injury, disease, or death to employees of participants.

The Fund is administered by a director, appointed by the Governor, with the advice and consent of the Senate, for a term of six years. The accompanying financial statements present the financial position, results of operations, and cash flows solely of the Fund and do not include any other departments, institutions, component units, etc. of the State of South Carolina.

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or set rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on the criteria, the Fund has determined it is not a component of another entity and it has no component units.

The budget, personnel, procurement, and other laws of the State and the policies and procedures for State agencies are applicable to the activities of the Fund.



## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **Fund Accounting**

The South Carolina state government uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual entities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations.

The South Carolina State Accident Fund is an internal service fund of the proprietary fund types of the State of South Carolina. Such funds account for the financing of goods and services by one department or agency of a governmental unit to others on a cost reimbursement basis.

#### **Basis of Accounting**

The accounting policies of the Fund conform to generally accepted accounting principles (GAAP) applicable to proprietary activities as prescribed by the Governmental Accounting Standards Board (GASB), the recognized standard-setting body for GAAP for all state governmental entities. Proprietary fund entities use the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred. In accordance with GASB Statement 20, the Fund has elected to apply all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989 not in conflict with GASB standards.

#### **Cash and Cash Equivalents**

The amount shown in the financial statements as "cash and cash equivalents" represents cash on deposit with the State's Treasurer, cash in banks, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and short-term investments not held by the State Treasurer's Office and having a maturity at purchase of three months or less.

Because the internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Investments held by the pool are carried at fair value. Interest earned on the agency's special deposit account is posted to the agency's account at the end of each month and is retained by the agency. The Fund records and reports its deposits in the general deposit account at cost. The Fund reports its deposits in the special deposit accounts at fair value. Interest earnings are allocated based on the percentage of the Fund's accumulated daily income receivable to the total interest receivable of the pool. Reported investment income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2001**

#### **Cash and Cash Equivalents (Continued)**

Although the cash management pool includes some long-term investments, it operates as a demand deposit account, therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 3.

#### **Property and Equipment**

Property and equipment are recorded at cost. As a general rule, items with a cost in excess of \$400 and a useful life of at least two years are capitalized. Cost of assets acquired under long-term contracts are capitalized as incurred. Depreciation is provided using the straight-line method over the useful lives of the related assets and begins at the time the asset is placed in service.

Major classifications of property and equipment and related useful lives are summarized as follows:

Computer and technical equipment	2-10 years
Office furniture and equipment	2-20 years

#### **Unpaid Claims Liability**

The Fund establishes unpaid claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The amount accrued includes estimated specific incremental claims adjustment expenses but not administrative expenses. Estimated amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims have been deducted from the liability for unpaid claims to the extent reasonably estimable. In addition, to the extent reasonably estimable, the liability for unpaid claims has been adjusted for amounts to be recovered or reimbursed from participants who retain the risk of loss for specific periods. This includes amounts recoverable from the State of South Carolina for state agency claims prior to July 1, 1986. See Note 7 for further explanation. Claims liabilities for DOT claims prior to January 1, 1994, are not included in the State Accident Fund's claims liability. See below and Note 4 for further information. Because actual claims costs depend on such complex factors as inflation, changes in doctrine of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed annually as of fiscal year end using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. While management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.

The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Prior to July 1, 1998 the Fund acted as a claims service with respect to claims incurred by the Department of Transportation prior to January 1, 1994 and the Department of Public Safety prior to August 1, 1993. For the year ended June 30, 1999 the General Assembly required the State Accident Fund to purchase an annuity for the purpose of funding the future obligation for workers compensation claims filed prior to restructuring by Department of Highways and Public Transportation employees. After June 30, 1998 workers compensation claims from these agencies are be paid from funds received from the annuity purchased. Risk of loss on these claims became the responsibility of the State Accident Fund.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **Reinsurance**

The fund has obtained reinsurance coverage to reduce its exposure to losses on insured events. Losses in excess of \$250,000 from an insured event are covered up to limits based on the type of injury as set by the workmen's compensation statutes of the South Carolina Code of Laws, with the Fund retaining the risk for the first \$250,000 of loss. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The coverage period runs from July 1, 2000 to September 1, 2001.

#### **Recognition of Premium Revenue, Receivables and Deferred Revenue**

Premiums are recognized as revenue on a pro rata basis over the policy term. Policies are billed and issued on both the fiscal year and calendar year basis. Premiums are based on an actuarial method and are currently adjusted so that over a reasonable period of time expected revenues, including investment income, and anticipated expenses will be approximately equal. In addition premium revenue includes accrued premium adjustments for additional premiums owed by policyholders as determined based on actual payrolls for the policy period which are in excess of estimated premiums billed which were based on estimated payroll costs. Revenue is reduced for refunds payable. Estimated premiums receivables and refund payables are recorded as of year-end for future anticipated premium adjustments for the policy years which end within the fund's fiscal year. A receivable is recorded at the time the annual estimated premium is billed even though some/all of the amount may not be currently due. Deferred revenue is recognized to the extent that the premiums billed and not yet received are for future periods. In addition, deferred revenue is recognized for unearned premiums received.

#### **Budget Policy**

The Fund is granted an annual appropriation for operating purposes by the General Assembly (to be funded by workers' compensation premiums and interest earned thereon). The appropriation as enacted becomes the legal operating budget for the Fund. The General Assembly enacts the budget through passage of specific line-item appropriations by program within budgetary unit, within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in the 2001 Appropriations Act proviso 72.14 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Agencies may charge vendor, interagency, and interfund payments for fiscal year 2000 to 2000 appropriations in July. Any unexpended appropriations as of June 30 automatically lapse on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not precisely define the budgetary basis of accounting. For each fiscal year, the level of legal control for each agency is reported in a publication by the State Comptroller General. The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash basis for payroll expenses and certain non-State appropriations revenue.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2001**

#### **Budget Policy (Continued)**

The Fund's budget includes administrative expenses and specifically excludes claims expense and the Second Injury Fund assessment. Amounts to be expended for capital assets are also budgeted. Expenses prepared on the accrual basis do not vary significantly from the budgetary basis. In accordance generally accepted accounting principles applicable to proprietary fund types, a comparison of actual revenues and expenses to the budgeted amounts has not been presented.

#### **Statement of Cash Flows**

For purposes of cash flows, the Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The State's internal cash management pool is included in this definition of cash equivalents.

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the Fund's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave.

Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Fund calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is determined by using fiscal year-end current salary costs and the cost of the salary-related benefit payments. The net change in the liability is recorded in the current year in the applicable personal services and employee benefits expense category.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimates include the unpaid claims liability.

#### **Investment in Reinsurance Annuity Contract**

As more fully explained in Note 4 under the 1993 Restructuring Act, the Department of Transportation and the Department of Public Safety were created and were charged with responsibilities of the former Department of Highways and Public Transportation effective July 1, 1993. Proviso 44.4 of the 1998-1999 Appropriation Act passed by the General Assembly required the State Accident Fund to purchase an annuity for the purpose of funding the future obligation for workers' compensation claims filed prior to restructuring by the Department of Highways and Public Transportation employees using funds from the Workers' Compensation Trust Fund. This annuity is being amortized over the life of the contract in proportion to annuity proceeds received.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 2 RISK MANAGEMENT:**

##### **Insurance Coverage**

The Fund, an administrative agency, is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from prior years. The cost of settled claims and claim losses have not exceeded this coverage in any of the past three years. The Fund pays insurance premiums to itself and certain other State agencies to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following type of claims:

1. Claims of State employees for unemployment compensation benefits. This type of claim is handled through the South Carolina Employment Security Commission;
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries. This type of claim is handled by the State Accident Fund;
3. Claims of covered public employees for health and dental insurance benefits. This type of claim is handled by the Office of Insurance Services; and
4. Claims of covered public employees for long-term disability and group-life insurance benefits. This type of claim is handled through the Office of Insurance Services.

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Fund and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets – building contents;
2. General tort claims; and
3. Data processing equipment.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property insurance. Also, the IRF purchases reinsurance for catastrophic property insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The Fund obtains coverage of up to \$25,000 per occurrence through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The Fund has not transferred the portion of the risk of loss related to insurance policy deductibles for its property contents, general torts, and fidelity bond coverage's to a State or commercial insurer. There were no expenses incurred for the year ended June 30, 2001 for actual claim payments related to such retained risk of loss.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **Insurance Coverage (Continued)**

The Fund has not reported an estimated claims loss expense and the related liability at June 30, 2001, based on the requirements of GASB Statements No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2001, and the amount of loss is reasonably estimable.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the Fund's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss should be recorded. Therefore, no loss accrual has been recorded.

#### **NOTE 3 DEPOSITS AND INVESTMENTS:**

Cash and cash equivalents consist of deposits under the control of the State Treasurer, who by law, has sole authority for investing State funds and deposits under the control of the State Accident Fund. However, as authorized by the State Treasurer's office, certain funds used to pay claims are invested and deposited with financial institutions.

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and cash equivalents	\$25,413,412	Deposits Held by State Treasurer	\$24,927,855
Cash overdraft	(802,776)	Other Deposits	(802,776)
		Investments	485,557
	<u>\$24,610,636</u>		<u>\$24,610,636</u>

#### **Deposits**

State law requires full collateralization of all State Treasurer's bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the carrying amounts, market values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

At June 30, 2001 the bank balance was \$455,000 and the amount reported in the financial statements is an overdraft of \$802,776. The entire bank balance was either covered by the insurance or collateralized with securities held by the Fund, or by its agent in the Fund's name.

#### **Investments**

Legally authorized investments include obligations of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

# **SOUTH CAROLINA STATE ACCIDENT FUND**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

### **NOTE 3 DEPOSITS AND INVESTMENTS: (Continued)**

#### **Investments (Continued)**

All of the Fund's investments are stated at fair value except those meeting certain specific requirements. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis. Earnings are recorded on the accrual basis.

The Fund's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fail. There are three categories of credit risk as follows:

1. Insured or registered, or for which the securities are held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the government's name.

A summary of other investments at June 30, 2001 by credit risk category follows:

	Category			Carrying	Fair
	1	2	3	Amount	Value
Repurchase agreements	\$485,557			\$485,557	\$485,557

### **NOTE 4 INVESTMENT IN REINSURANCE ANNUITY CONTRACT:**

Under the 1993 Restructuring Act, the Department of Transportation and the Department of Public Safety were created and were charged with responsibilities of the former Department of Highways and Public Transportation effective July 1, 1993. Proviso 44.4 of the 1998-1999 Appropriation Act passed by the General Assembly required the State Accident Fund to purchase an annuity for the purpose of funding the future obligation for workers' compensation claims filed prior to restructuring by the Department of Highways and Public Transportation employees using funds from the Workers' Compensation Trust Fund.

While the State believes the annuity will provide funding adequate to cover this liability, the Fund has ultimate responsibility to pay these claims should the annuity funding be inadequate. On March 11, 1999 the State Accident Fund purchased a type one annuity that will pay a fixed amount quarterly for a period of forty years. The annuity was effective as of January 1, 1999. The Fund received its first quarterly annuity payment on April 5, 1999. For the year ended June 30, 2001 the Fund paid \$124,885 of Department of Transportation claims covered by this annuity. They received reimbursement of \$90,273 under this contract for the year ended June 30, 2001. The amount \$285,974, shown on the balance sheet as recoverable under reinsurance annuity contract, represents amounts due under the annuity that will be collected in the future for cumulative claims payments in excess of cumulative annuity receipts, which includes the 4<sup>th</sup> quarterly annuity payment due in 2001. The estimated future claims is \$667,000 which is not included in the unpaid claims liability and claims adjustment expenses payable on the balance sheet. Under the terms of the annuity the Fund will receive 160 quarterly payments. For the first forty payments the Fund will receive \$30,091 per quarter, the next forty payments will be for \$15,022, the next forty payments will be for \$3,726, and the last forty will be for \$2,364. Total amount to be received under the annuity will be \$2,048,120. The total price of the annuity was \$1,282,294 and was paid in a single premium. The amount of the annuity to purchase was determined actuarially.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 4 INVESTMENT IN REINSURANCE ANNUITY CONTRACT: (CONTINUED)**

The liability for these claims is not reported by either the State Accident Fund or the Department of Transportation because the State of South Carolina feels that the proceeds from the annuity contract will provide adequate funding to pay these claims and the risk of loss is remote. The annuity is being amortized over the life of the annuity in proportion to annuity proceeds received. The amount of amortization charged for the year ended June 30, 2001 was \$75,358 and is included as amortization expense in the nonoperating section of the statement of revenues, expenses, and changes in retained earnings.

#### **NOTE 5 PREMIUMS RECEIVABLE:**

Premiums receivable consist of amounts receivable from the following:

County and Municipal Governments and Agencies	\$ 2,800,358
State Agencies	32,568,465
	<u>\$35,368,823</u>

Included in premium receivable and premium revenue is \$2,198,448 receivable from state agencies and \$512,365 from county and municipal governments and agencies for estimated additional premium adjustments not processed as of June 30, 2001. The majority of premiums receivable represent billings for future periods which have not been earned as of fiscal year-end.

#### **NOTE 6 ACCRUED REFUNDABLE PREMIUMS:**

Policyholders are billed annually for estimated premiums based on the policyholder's estimated payroll. After the policy period ends, policyholders submit the details of the actual salaries paid and the Fund adjusts the premium based on the actual payroll and a rating modifier based on claims experience. The amounts the Fund owed policyholders for estimated premiums in excess of actual adjusted premiums at June 30, 2001 was \$905,483 for those county and municipal policyholders. An additional \$4,390,003 was due to state agencies.

Included in refunds payable is \$751,446 estimated due to county and municipal governments and agencies and \$3,612,275 estimated due to state agencies for estimated premium adjustments not processed as of June 30, 2001.

#### **NOTE 7 UNPAID CLAIMS LIABILITY AND CLAIMS ADJUSTMENT EXPENSES:**

The amount accrued for unpaid claims liability and claims adjustment expenses is an actuarially determined amount, based on the Fund's historical claims expenses adjusted for current factors, for the estimated ultimate cost of settling claims for events which occurred on or before year-end but were unpaid at the end of the year. To the extent claims were incurred on behalf of state agencies prior to July 1, 1986, reimbursement will be due from the State of South Carolina when the claims are paid. Estimated amounts recoverable from subrogation have been deducted from the claims liability.



# SOUTH CAROLINA STATE ACCIDENT FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

### NOTE 7 UNPAID CLAIMS LIABILITY AND CLAIMS ADJUSTMENT EXPENSES: (CONTINUED)

The amounts accrued for unpaid claims liability and claims adjustment expenses, net of amounts recoverable from the State, for the past two years are as follows:

	2001	2000
Unpaid claims liability and claim adjustment expenses at beginning of year	\$55,374,000	\$48,731,000
Current year claims and changes in estimates	35,153,926	40,661,308
Claims payments	(34,209,292)	(34,018,308)
Total unpaid claims liability and claim adjustment expenses at the end of year	<u>\$56,318,634</u>	<u>\$55,374,000</u>

This claims liability is further categorized as follows:

State Agencies	\$44,568,634
Counties and Municipalities	11,750,000
Total	<u>\$56,318,634</u>

### NOTE 8 SECOND INJURY FUND ASSESSMENT:

The Fund is required to pay an annual assessment to the Second Injury Fund of the State of South Carolina. The assessment is usually billed in the first quarter of the fiscal year and is based on a specified percentage of total claims paid by the Second Injury Fund during the previous calendar year. The Second Injury Fund handles claims for workers who have permanent physical impairments and incur subsequent disability from injury by accidents arising out of and in the course of employment. The assessment for fiscal year 2001 was \$6,030,699. The Fund receives reimbursements of claims expense from the Second Injury Fund. The total amount received during fiscal year 2001 was approximately \$8,200,000 which is reported as a reduction of which is claim expense.

### NOTE 9 PENSION PLAN:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Authority are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all state employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2001**

#### **NOTE 9 PENSION PLAN: (CONTINUED)**

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. This requirement does not apply if the disability is a result of a job related injury. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2000 the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2001, 2000 and 1999 were approximately \$235,000, \$231,000 and \$266,000, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$4,700 for the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Fund for pension, group-life, and post-retirement benefits are included as personal services expenses.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title Nine of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 9 PENSION PLAN: (CONTINUED)**

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Fund's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Fund's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Fund recognizes no contingent liability for unfunded costs associated with participation in plans. At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

#### **NOTE 10 POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Fund are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date.

Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Fund for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Fund for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 21,000 State retirees met these eligibility requirements as of June 30, 2000.

The Fund recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$237,000 for the year ended June 30, 2001. As discussed in Note 9, the Fund paid approximately \$78,000 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Fund retirees is not available. By State law, the Fund has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements. In addition, the South Carolina General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from the System's earnings; however, a portion of the required amount is appropriated from the South Carolina General Fund annually.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 11 DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Fund have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employees.

The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State authorized deferred compensation matching contributions for fiscal year 2000 – 2001. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the contributions paid from State General Funds to 401(k) accounts of eligible state employees. In addition, the 2000 Appropriations Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue sources. The 401(k) match is limited to \$300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actually contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full time employees making less than \$20,000 as of July 1, 2000 are not required to contribute in order to receive the match.

The Authority contributed \$25 per participant per pay period beginning January 1, 2001. The total contribution for the fiscal year was approximately \$11,000.

#### **NOTE 12 OPERATING LEASES:**

The Fund's noncancelable operating lease for the rental of office space expires in the fiscal year ending June 30, 2002. The lease contains a renewal option for one year at the same terms and conditions, except that the rental rate shall be negotiated. It also leases office equipment and vehicles under short-term and/or cancelable operating leases. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Minimum future rental obligations under this non-cancelable lease are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2002	\$262,452

The Fund is not obligated under any non-cancelable operating leases for the rental of office equipment that have remaining terms in excess of one year from June 30, 2001. Operating lease expenses for the fiscal year ended June 30, 2001, was approximately \$273,000 for office space and approximately \$45,000 for office equipment and vehicles. The Fund reports these costs in rent and insurance administrative expenses.

#### **NOTE 13 TRANSACTIONS WITH STATE ENTITIES:**

The Fund has significant transactions with the State of South Carolina and various State agencies. Services received at no cost from State Agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General's office; check preparation, banking, and investment functions from the State Treasurer; legal services from the Attorney General's office; and record storage for the Department of Archives and History.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 13 TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)**

Other services received at no cost from the various divisions of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, property management and record keeping, review and approval of certain budget amendments, procurement services, and other centralized functions.

The Fund had financial transactions with various State Agencies during the year ended June 30, 2001. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, interagency mail, and data processing services. Payments were also made for unemployment coverage for employees to the Employment Security Commission. The amount of 2001 expenses applicable to these transactions are not readily determinable.

The Fund provided no services free of charge to other State Agencies during the year ended June 30, 2001; however, the Fund provided worker's compensation coverage to all State Agencies for a fee. Premium revenue from State Agencies during the year ended June 30, 2001 was approximately \$27,470,000.

The Fund received \$54,360 in the fiscal year from the State of South Carolina for claims prior to 1986. \$38,198 was received subsequent to June 30, 2001 and is included in the claims recoveries and reimbursement receivables account on the balance sheet.

#### **NOTE 14 NET LOSS/RETAINED EARNINGS DEFICIT:**

The statement of revenues, expenses, and changes in retained earnings shows a net loss of approximately \$10,242,000 for the year ended June 30, 2001. The Fund has a deficit retained earnings deficit of approximately \$29,858,000. The deficit includes lost interest earnings through 1995. In addition the Legislature took \$3 million out of the Trust fund in 1999.

Prior to 1990, all investment income earnings of the Fund were credited to the General Fund of the State. For fiscal years 1991 and 1992, the Fund received one-third and two-thirds of the investment income. Section 42-7-75 of the South Carolina Code of Laws require the State Treasurer to deposit in the Fund's trust account monthly sufficient funds to pay expenses and claims required by law to be paid with the amount limited to the amount of investment income which the Fund would have earned since its inception if all investment earnings had been credited to the Fund. Estimates prepared by management in 1995 estimated that limit to be approximately \$12,300,000 assuming an interest rate of 4% to approximately \$20,600,000 using an interest rate of 6%.

To reduce the deficit, the Fund purchased excess of loss reinsurance for accidents that occur on and after July 1, 2000. Claim costs in excess of \$250,000 are reinsured. Also, effective January 1, 2001, the experience rating formula was modified to generate additional revenue of 10.9% and effective January 1, 2002, the premium volume discount program will be modified to generate an additional 5.3% in premium revenue. The Fund has recently implemented a medical management cost containment program that is expected to reduce claim costs significantly.

Management is hopeful that these actions will result in positive movement toward elimination of the Fund financial deficit.

## **SOUTH CAROLINA STATE ACCIDENT FUND**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001**

#### **NOTE 15 CONCENTRATIONS OF CREDIT RISK AND OTHER CONCENTRATIONS:**

The Fund has reinsurance contracts with providers which share or limit the Fund's exposure to losses. However, should the reinsurance providers be unable to meet their obligations settlement of these amounts will ultimately be the responsibility of the South Carolina State Accident Fund. The Fund provides services to South Carolina governmental entities. The limited make-up of the membership group, as well as the limited geographic region in which the Fund operates, increases the Fund's exposure to business concentrations.

#### **NOTE 16. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued Statement No. 34 Basis Financial Statements and Management's Discussion and Analysis – for State and Local Governments. The new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

#### **NOTE 17. PRIOR PERIOD ADJUSTMENT**

An adjustment was necessary to reduce premiums receivable as of June 30, 2000 by \$350,000. Funds were received in a prior period but the receivable balance was not reduced for the receipt of the funds. The effect of the adjustments to the balances as of June 30, 2000 were as follows:

	As Previously Reported	Prior Period Adjustment	As Restated
Premiums receivable	<u>\$ 5,524,953</u>	<u>\$ (350,000)</u>	<u>\$ 5,174,953</u>
Retained earnings (deficit)	<u>\$(19,265,934)</u>	<u>\$ (350,000)</u>	<u>\$ (19,615,934)</u>

**SOUTH CAROLINA STATE ACCIDENT FUND**  
**STATUS OF PRIOR MANAGEMENT LETTER COMMENTS**  
**JUNE 30, 2001**

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the management letter comments section of our report for the fiscal year ended June 30, 2000 dated October 24, 2000. We determined that the Fund has taken adequate corrective action on each of the deficiencies that were included in the prior report.